INTERCO

Annual Report
For New Fiscal Year
Ended February 28, 1973

ır-Priced Consumer Products

Footwear Manufacturing and Retailing Group

The divisions within this group style, manufacture, wholesale and retail men's, women's and children's footwear in most major price categories in the United States and Canada, and manufacture and wholesale men's footwear in Australia.

The major brands of footwear offered for men and young men are—Ambassador • Florsheim • Hy-Test • Julius Marlow • McHale • Rand • Winthrop • Worthmore. For women—Denny Stewart • di Vina • Florsheim • Miss Wonderful • Personality • Ramblers • Thayer McNeil • Thomas Wallace • Vitality. For children—Red Goose • Poll-Parrot • Savage.

Facilities include 38 shoe manufacturing plants and 8 major distribution centers. Distribution is principally to independent shoe stores, department stores, and chains.

The company also operates 873 retail shoe stores and leased shoe departments in the United States, Canada and Mexico. The principal trading names are Florsheim • Gude's • Margolis Shoes • Paul's Shoes • Phillips Shoes • Thayer McNeil Shoe Salons • Thompson, Boland and Lee.

Sales and Earnings Contribution:
(dollars in millions)

	Twelve Months Ended		
	February 28 1973	February 29 1972	February 28 1971
Sales	$442.6	$400.0	$379.2
% of total	44.2%	44.3%	45.8%
Earnings before income taxes, interest and corporate expenses	$ 43.6	$ 37.2	$ 35.0
% of total	52.2%	50.9%	52.9%

INTERCO

Interco's Business is Manufacturing and Retailing of Popul

Apparel Manufacturing Group

This operating group designs, manufactures and distributes a full range of popular-priced branded and private-label sportswear and casual apparel for men, young men and boys; western wear and shirts for the entire family; and matched sets for work and leisure wear.

The major apparel brands are Big Yank • Biltwell • Bold Breed • Campus • Cowden • Expressions by Campus • GTO • Impact 70's • John Alexander • Leonard Macy • Mercury Sportswear • Mr. Golf • Mr. Tennis • Tailor's Bench.

These nationally advertised brands are distributed to major independent department stores, specialty shops and other retail units. Substantial distribution is also made under private label to large national retail chains.

Sportswear and casual apparel is produced in 37 apparel manufacturing plants and shipped to our customers from 7 major distribution centers. The principal products include woven and knit slacks, knit shirts—both sport and dress, sport coats, coordinated duo and trio sportswear, sweaters, jeans, western wear, outerwear, swim trunks and walk shorts.

Sales and Earnings Contribution:
(dollars in millions)

	Twelve Months Ended		
	February 28 1973	February 29 1972	February 28 1971
Sales	$225.3	$198.0	$182.1
% of total	22.5%	21.9%	22.0%
Earnings before income taxes, interest and corporate expenses	$ 22.7	$ 18.5	$ 14.4
% of total	27.2%	25.3%	21.8%

General Retail Merchandising Group

The retail divisions of this operating group offer to the entire family a wide assortment of popular-priced products and services for the growing middle-income population through 571 retail stores in most regions of the country.

General retailing operations include both full-service and self-service junior department stores, discount stores, specialty shops and supermarket-type hardware, lumber and building materials stores.

Stores are supplied from 8 modern regional distribution centers, which are geographically located to derive maximum benefits from centrally controlled merchandising.

The principal regional trading names include Central Hardware • Eagle Family Discount Stores • Fine's Men's Shops • Golde's • Keith O'Brien • Kent's • Lin-Brook Hardware • Miller's • P. N. Hirsch • Shainberg's • Standard Sportswear • The I. D. Store • Thornton's • Wigwam.

Sales and Earnings Contribution:
(dollars in millions)

	Twelve Months Ended		
	February 28 1973	February 29 1972	February 28 1971
Sales	$333.9	$304.7	$267.0
% of total	33.3%	33.8%	32.2%
Earnings before income taxes, interest and corporate expenses	$ 17.2	$ 17.4	$ 16.7
% of total	20.6%	23.8%	25.3%

We have changed our fiscal year to the end of February

Q. Why did we change our fiscal year?

A. This change was advisable because the seasonal nature of the company's business activities changed during the past years, and meshing the fiscal year with the natural business year permits better coordination of financial activities.

Q. How will we report our earnings in the future?

A. In the future, beginning with this financial report, the annual financial condition and operating results will be reported on a February 28 fiscal year.

Q. What are the new fiscal quarters for reporting the financial results?

A. Under the new fiscal year the first quarter will end May 31, second quarter will end August 31, third quarter will end November 30, and the fourth quarter will end on the last day in February. These are the same fiscal quarters as reported under the former fiscal year.

Q. Will this change affect dividend payment dates?

A. No. Payment of quarterly dividends to stockholders, as declared, will continue on the fifth calendar day in January, April, July and October.

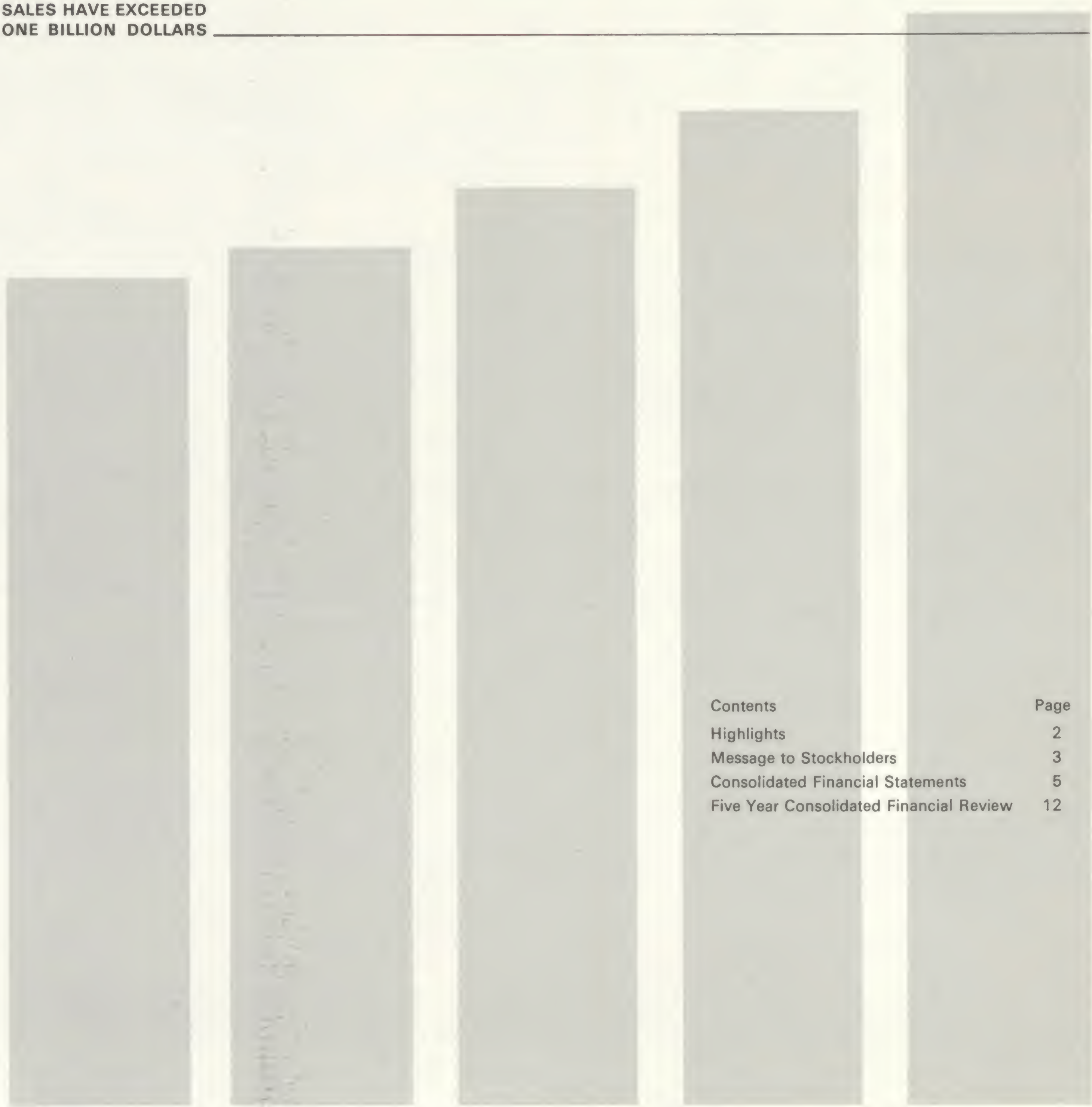
Q. When will the annual meeting of stockholders be held?

A. The annual meeting of stockholders will be held in June, commencing in 1974.

INTERCO
INCORPORATED

62nd Annual Report

SALES HAVE EXCEEDED ONE BILLION DOLLARS



Contents

Highlights

Fiscal Years Ended	February 28 1973	February 29 1972	Change
From operations:			
Net sales	**$1,001,817**	$ 902,734	+11.0%
Earnings before income taxes	**75,822**	65,171	+16.3%
Net earnings	**39,122**	34,068	+14.8%
Percent of net sales	**3.9%**	3.8%	
Per share of common stock:			
Fully diluted earnings	**$3.69**	$3.26	+13.2%
Dividends	**$1.25**	$1.21	+ 3.3%

(Dollars in thousands except per share data)

Years Ended	February 28 1973	November 30 1972
Financial condition:		
Working capital	**$ 278,363**	$ 271,680
Current ratio	**3.7 to 1**	3.5 to 1
Total assets	**485,607**	485,622
Stockholders' equity	**310,328**	302,581
Return on stockholders' average investment	**13.1%**	13.0%
Shares outstanding:		
Common stock	**10,008,598**	9,846,490
Preferred stock	**177,357**	202,337
Number of stockholders	**14,100**	14,200
Number of employees	**41,600**	41,700

(Dollars in thousands)

Message to our Stockholders:

This annual report, which covers a transition period, includes the financial position of the company at February 28, 1973, and the results of operations for the year ended on that date. As disclosed previously, INTERCO has changed its fiscal year so that financial reporting to shareholders is on a February 28 fiscal year.

In early February, 1973, we issued the annual report of the company for the former fiscal year ended November 30, 1972. In that report we covered the various details of our business which are normally included in such reporting, therefore, this transitional annual report is directed primarily to the reporting of our financial condition and operating results.

INTERCO's sales for its new fiscal year ended February 28, 1973, exceeded the $1 billion plateau for the first time and earnings were the highest in the history of the company. This performance continues the sales and earnings growth record which we have reported for almost 10 years.

SALES

Net sales for the year ended February 28, 1973, were a record $1,001.8 million, an increase of $99.1 million or 11.0% over fiscal year ended February 29, 1972 sales of $902.7 million. INTERCO's three major operating groups reported record sales in fiscal 1973.

EARNINGS

Earnings before income taxes for fiscal 1973 were a record $75.8 million, an increase of $10.6 million or 16.3% over fiscal 1972 pre-tax earnings of $65.2 million. This margin of profitability—pre-tax earnings to sales—increased to 7.6%.

Record earnings before income taxes were established by the Apparel and Footwear groups in fiscal 1973, however, the General Retail group had a slight decrease—1% under the record level of fiscal 1972. This decline was the result of the liquidation of Proctor Enterprises, a division of Central Hardware, in the third quarter ended November 30, 1972. In the fourth quarter of fiscal 1973, the General Retail business operated at record high levels.

Net earnings for fiscal 1973 amounted to $39.1 million compared to $34.1 million for fiscal 1972, an increase of 14.8%. The net earnings margin of profit increased to 3.9% compared to 3.8% last year.

Fully diluted earnings per common share, which assume the full conversion of outstanding preferred stock, the issuance of contingent common shares which may be earned by stockholders of companies acquired, and the exercise of stock options, were $3.69 compared with $3.26 in the prior year, an increase of 13.2%.

FINANCIAL POSITION

The company's strong financial condition showed continued improvement. Working capital—the excess of current assets over current liabilities—was $278.4 million with a ratio of 3.7 to 1 at February 28, 1973.

Accounts receivable and inventories continued under strict budgetary controls with in-depth management of assets employed.

Long-term debt of the company was $60.8 million and stockholders' equity increased to $310.3 million, showing debt at 16.4% of invested capital.

THE BUSINESS

INTERCO has grown to be a very large company and we are realistically evaluating our markets, our products and our people on a continuing basis in order to properly cope with the challenges of the future. Our business is the manufacturing and retailing of popular-priced consumer products for the continually expanding middle-income range of the population.

Our philosophy is—style, quality, and value. To meet our objectives, constant attention is directed to strict cost control, inventory surveillance, and quality products and services.

ORGANIZATIONAL CHANGES

To strengthen further the management group, the following appointments were made on March 12, 1973:

- William L. Edwards, Jr.—Senior Executive Vice President of the company—was elected to the additional post of Chief Administrative Officer.
- Duane A. Patterson—formerly Assistant Secretary of the company—was elected Secretary, replacing Richard H. Ely, who died on January 20, 1973.
- Stanley F. Huck—formerly Manager of Accounting of the company, was elected Assistant Controller.

COMMON STOCK AUTHORIZATION

The stockholders approved an increase in the authorized number of shares of common stock from 15 million to 30 million shares at the March 12, 1973 annual meeting. There are at present no plans for the use of this additional stock.

EXPANSION

Continued growth is planned for fiscal 1974. We have the financial resources, the in-depth management capability and the products and services to do an improving job.

We continue to seek out and evaluate acquisition possibilities which will add strength and establish new market opportunities for our existing business—or provide a strong new base of operations for INTERCO.

Internally, we will continue to expand our apparel and footwear manufacturing plants and warehousing facilities as required, and will open approximately 70 new retail shoe stores and leased departments during fiscal 1974.

In addition, we presently have plans to add during the coming year, about 60 general retail merchandising stores.

OUTLOOK

Our prime objective is to operate a well-balanced diversified company, with increasingly higher earnings and improved return on stockholders' investment.

We expect fiscal 1974 to be another good year for INTERCO.

M. R. Chambers
Chairman of the Board and
Chief Executive Officer

J. K. Riedy
President and Chief
Operating Officer

April 9, 1973

consolidated financial statements

INTERCO

Consolidated Balance Sheet

(Dollars in thousands)

ASSETS

	February 28 1973	November 30 1972
Current assets:		
Cash	**$ 17,352**	$ 28,846
Receivables, less allowance for doubtful accounts and cash discounts, $3,164 ($3,073 at November 30, 1972)	**136,898**	134,271
Inventories:		
Finished products and other merchandise	**169,672**	167,668
Raw materials and work in process	**52,412**	46,749
	222,084	214,417
Prepaid expenses	**2,460**	2,495
Future income tax benefits	**2,109**	296
Total current assets	**380,903**	380,325
Other assets:		
Future income tax benefits	**2,646**	2,928
Excess of investment over equity in subsidiaries at acquisition, net of amortization	**9,995**	10,132
Sundry investments and other assets	**5,407**	5,987
Total other assets	**18,048**	19,047
Property, plant and equipment, at cost:		
Land	**4,817**	4,833
Buildings and improvements	**79,611**	79,273
Machinery and equipment	**87,823**	86,613
	172,251	170,719
Less accumulated depreciation	**85,595**	84,469
Net property, plant and equipment	**86,656**	86,250
	$485,607	$485,622

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	February 28 1973	November 30 1972
Current liabilities:		
Notes payable	$ —	$ 9,751
Current maturities of long-term debt	3,557	3,793
Accounts payable and accrued expenses	85,956	84,634
Income taxes	13,027	10,467
Total current liabilities	102,540	108,645
Other liabilities:		
Long-term debt, less current maturities	60,778	62,132
Deferred compensation and other deferred liabilities	9,121	9,473
Minority interests in subsidiaries	2,840	2,791
Total other liabilities	72,739	74,396
Stockholders' equity:		
Preferred stock, at stated and liquidating value:		
First preferred	929	3,384
Second preferred	15,836	15,840
	16,765	19,224
Common stock, at stated value	75,230	74,418
Capital surplus	42,423	40,740
Retained earnings	176,545	170,379
	310,963	304,761
Less common stock in treasury, at cost	635	2,180
Total stockholders' equity	310,328	302,581
	$485,607	$485,622

Consolidated Statement of Earnings

(Dollars in thousands except per share data)

	THREE MONTHS ENDED February 28 1973	THREE MONTHS ENDED February 29 1972	TWELVE MONTHS ENDED February 28 1973	TWELVE MONTHS ENDED February 29 1972 (Unaudited)
Sales and other income:				
Net sales	$252,525	$231,829	$1,001,817	$902,734
Other income, net	1,979	2,010	7,978	7,737
	254,504	233,839	1,009,795	910,471
Deductions:				
Cost of sales	173,841	159,123	707,858	634,076
Selling, general and administrative expenses	58,263	55,251	221,106	205,839
Interest expense	929	1,084	4,630	5,059
Minority interests	113	100	379	326
	233,146	215,558	933,973	845,300
Earnings before income taxes	21,358	18,281	75,822	65,171
Income taxes	10,225	8,573	36,700	31,103
Net earnings	$ 11,133	$ 9,708	$ 39,122	$ 34,068
Per share of common stock:				
Fully diluted earnings	$1.05	$0.92	$3.69	$3.26
Primary earnings	$1.08	$0.97	$3.83	$3.48

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

(Dollars in thousands)

	THREE MONTHS ENDED February 28 1973	THREE MONTHS ENDED February 29 1972	TWELVE MONTHS ENDED February 28 1973	TWELVE MONTHS ENDED February 29 1972 (Unaudited)
Working capital provided by:				
Net earnings	$ 11,133	$ 9,708	$ 39,122	$ 34,068
Depreciation and amortization	2,718	2,549	10,344	9,900
Decrease (increase) in future income tax benefits	282	(31)	150	(148)
Other, net	(303)	(251)	69	241
Operations	13,830	11,975	49,685	44,061
Disposal of property, plant and equipment	167	95	1,054	5,044
Sale of common stock	—	—	—	16,842
Issuance of common stock for purchase of company	—	1,509	—	1,509
Issuance of common stock for conversion of preferred stock—contra below	2,459	2,090	4,292	25,134
Exercise of stock options	36	1,805	3,421	2,627
Working capital of purchased companies	—	2,761	2,603	2,761
	16,492	20,235	61,055	97,978
Working capital used for:				
Purchase of property, plant and equipment	3,154	2,709	15,243	13,668
Cash dividends	3,422	3,171	13,128	12,206
Conversion of preferred stock—contra above	2,459	2,090	4,292	25,134
Reduction of long-term debt	1,354	315	7,022	2,972
Purchase of companies	—	3,034	3,261	3,034
Purchase of company's stock	—	—	—	426
Other, net	(580)	(284)	468	311
	9,809	11,035	43,414	57,751
Increase in working capital	$ 6,683	$ 9,200	$ 17,641	$ 40,227
Working capital increased (decreased) by:				
Cash	$(11,494)	$ 7,829	$ (25,450)	$ 17,256
Receivables	2,627	(33)	21,949	274
Inventories	7,667	1,206	21,425	24,339
Notes payable	9,751	(4,548)	4,548	12,515
Current maturities of long-term debt	236	262	1,103	921
Accounts payable and accrued expenses	(3,882)	5,032	(8,154)	(15,301)
Other current assets and liabilities, net	1,778	(548)	2,220	223
	$ 6,683	$ 9,200	$ 17,641	$ 40,227

 See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

(Dollars in thousands)

	Three Months Ended February 28, 1973					
	Preferred Stock	Common Stock Issued	Common Stock In Treasury	Capital Surplus	Retained Earnings	Total
Balance November 30, 1972	$19,224	$74,418	$(2,180)	$40,740	$170,379	$302,581
Net earnings					11,133	11,133
Cash dividends:						
Preferred stock					(220)	(220)
Common stock—$0.32 per share					(3,202)	(3,202)
Issuance of 53,800 contingent common shares			1,545		(1,545)	
Conversion of preferred stock:						
Series A—24,305 shares	(2,430)	792		1,638		
Series B— 635 shares	(25)	10		15		
Series C— 40 shares	(4)	1		3		
Exercise of stock options:						
Common—1,250 shares		9		27		36
Balance February 28, 1973	$16,765	$75,230	$ (635)	$42,423	$176,545	$310,328

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. **Summary of Significant Accounting Policies**—The company employs generally accepted accounting principles on a consistent basis to present fairly its financial position, results of operations, and changes in financial position. The major accounting policies of the company are set forth below.

Fiscal Year—On December 11, 1972, the Board of Directors approved the change in the company's fiscal year from November 30 to the last day in February. In this report, fiscal 1973 refers to the twelve months ended February 28, 1973, and fiscal 1972 refers to the twelve months ended February 29, 1972. Amounts shown for the twelve months ended February 29, 1972 are unaudited.

Principles of Consolidation—The consolidated financial statements include the accounts of all subsidiaries which are more than 50% owned.

Inventories—Approximately 93% of the inventories are priced at the lower of cost (first-in, first-out) or replacement market. The remainder of the inventories are priced on the basis of the "last-in, first-out" method. Had the "first-in, first-out" method been applied to all inventories, they would have been stated at $241,416,000 and $234,512,000 at February 28, 1973 and November 30, 1972, respectively.

Property, Plant and Equipment—The provision for depreciation is based on the estimated useful lives of the assets, ranging from 3 to 50 years for buildings and improvements and 3 to 16 years for machinery and equipment. For financial reporting purposes, the company employs both the straight-line and accelerated methods in computing depreciation. For fiscal 1973, approximately 75% of the depreciation expense was computed on the straight-line method. Expense for periods indicated was as follows (in thousands):

	February 28, 1973	February 29, 1972
Three months ended	$2,581	$2,499
Twelve months ended	9,994	9,581

Excess of Investment Over Equity in Subsidiaries—Cost in excess of net assets of companies acquired, except for approximately $5,300,000 which arose prior to December 1, 1969, is being amortized on a straight-line basis, generally over forty years.

Start-Up Expenses—Start-up expenses of new facilities are charged to operations in the period incurred.

Income Taxes—A summary of the provisions for income taxes follows (in thousands):

	Three months ended		Twelve months ended	
	February 28, 1973	February 29, 1972	February 28, 1973	February 29, 1972
Current:				
Federal	$10,540	$7,634	$34,083	$28,181
State and city	959	634	3,085	2,000
Foreign (principally Canadian)	257	348	1,505	1,593
	11,756	8,616	38,673	31,774
Deferred	(1,531)	(43)	(1,973)	(671)
	$10,225	$8,573	$36,700	$31,103
Investment tax credits	$ 105	$ 65	$ 512	$ 289

State and city income taxes were classified in prior reports as operating expenses.

Deferred compensation, depreciation, profit on installment sales and certain reserves are recognized for income tax purposes in years other than the years in which they are reported in the financial statements. Provision has been made for resulting deferred taxes and future tax benefits. Investment tax credits are reflected as a reduction of Federal income taxes for the period in which qualified property is placed in service.

It is the company's intent that the undistributed earnings of subsidiaries will be reinvested in the subsidiaries. Accordingly, no provision has been made for income taxes on such undistributed earnings.

The Federal income tax returns of the company and its major subsidiaries have been examined through 1968. Examinations of years 1969 through 1971 are currently in process. Management is of the opinion that the results of these examinations will have no material effect on the company's financial position or results of operations.

2. **Acquisitions**—During fiscal 1973 the company acquired all the outstanding stock of Big Yank Corporation and Standard Sportswear, Inc. in exchange for 309,321 shares of common stock, of which 68,743 were treasury shares. These transactions were accounted for as poolings of interests, and accordingly the accounts of these companies have been included in the accompanying financial statements for fiscal 1973 and 1972. Consolidated net sales and net earnings for fiscal 1972 prior to restatement for these business combinations were $865,627,000 and $32,690,000, respectively. The results of operations of these companies for fiscal 1973 prior to combining are not material to consolidated results of operations. Also during fiscal 1973, a company was acquired for $3,261,000 cash in a transaction which was accounted for as a purchase.

3. **Long-Term Debt**—Long-term debt includes the following:

	February 28, 1973	November 30, 1972
	(Dollars in thousands)	
4⅝% promissory installment notes, payable $1,875,000 annually, 1973-1989, and balance in 1990	$44,375	$44,375
6% promissory installment notes, payable $750,000 annually, 1973-1975, $1,250,000 annually, 1976-1979, and balance in 1980	9,375	10,500
4¾% obligation under long-term lease, payable in annual installments increasing from $250,000 in 1973 to $565,000 in 1991	7,415	7,415
Other debt at 2½% to 9¼% interest rates, payable in varying amounts through 1993	3,170	3,635
	64,335	65,925
Less current maturities	3,557	3,793
	$60,778	$62,132

The 4⅝% note agreement restricts retained earnings of $43,810,000 as to the payment of cash dividends on capital stock and the purchase, redemption or retirement of capital stock. The agreement also provides that no such payments be made unless consolidated working capital shall be at least $80,000,000.

4. **Preferred Stock**—The company's preferred stock is issuable in series. Authorized preferred stock consists of 577,060 shares of first preferred (Series A and B) and 1,000,000 shares of second preferred (Series C) without par value. Such stock is summarized as follows:

Series A—$4.75 cumulative, with stated and involuntary liquidating value of $100 per share; issued 2,807 shares (27,112 shares at November 30, 1972); callable beginning in 1974 at $104.75, decreasing to $100.00 in 1981; convertible into 4.3478 shares of common stock.

Series B—$2.10 cumulative, with stated and involuntary liquidating value of $40 per share; issued 16,191 shares (16,826 shares at November 30, 1972); callable beginning in 1975 at $42.10, decreasing to $40.00 in 1985; convertible into 2 shares of common stock.

Series C—$5.25 cumulative, with stated and involuntary liquidating value of $100 per share; issued 158,359 shares (158,399 shares at November 30, 1972); callable beginning in 1975 at $105.25, decreasing to $100.00 in 1985; convertible into 3.0534 shares of common stock.

5. **Common Stock**—The company's common stock consists of 15,000,000 shares authorized with stated value of $7.50 per share, of which 10,030,711 shares were issued at February 28, 1973 (9,922,403 at November 30, 1972), including 22,113 shares (75,913 at November 30, 1972) in treasury. At February 28, 1973, 928,537 shares of common stock are reserved, of which 528,119 shares are for conversion of preferred stock, 331,900 shares for common stock options, and 68,518 for issuance of contingent shares based on profit performance of acquired companies.

On March 12, 1973 the stockholders approved an increase in the authorized common stock to 30,000,000 shares.

During fiscal 1973 the stockholders approved a new stock option plan authorizing the granting of 200,000 shares of common stock as qualified or non-qualified stock options, or a combination of both. Options granted under the new plan permit certain key employees to purchase shares of common stock at prices equal to market value on the dates the options were granted. All options which have been granted are qualified options, become exercisable in installments, and expire five years from date of grant. Changes in options during the three months ended February 28, 1973 are summarized as follows:

	Shares	Average Price
Beginning of period	160,925	$41.46
Granted	—	—
Exercised	(1,250)	29.06
Cancelled	(1,100)	47.73
End of period	158,575	41.51
Exercisable	12,088	
Available for grant	173,325	

6. **Commitments and Contingent Liabilities**—The company and its subsidiaries have pension plans covering substantially all employees. The company's policy with respect to principal pension plans is to fund pension costs accrued. Total pension expense, which includes as to certain of the plans amortization of prior service costs over periods ranging from 20 to 40 years, was as follows (in thousands):

	February 28, 1973	February 29, 1972
Three months ended	$1,938	$1,706
Twelve months ended	7,198	6,254

The actuarially computed value of vested benefits as of latest valuation dates of the plans exceeds the total of the pension funds by approximately $5,600,000.

Excluding rental payments on capitalized long-term leases, the company currently has leases expiring at various dates through the year 2047. Based upon existing leases, minimum annual rentals for fiscal 1974 will approximate $20,400,000, with additional rentals payable under certain leases based on a percentage of sales in excess of specified minimums. Total rent expense was as follows (in thousands):

	February 28, 1973	February 29, 1972
Three months ended	$ 8,586	$ 7,898
Twelve months ended	32,591	29,086

The company has also guaranteed leases of retail outlets of customers which at February 28, 1973 aggregates approximately $2,600,000 based on minimum rentals.

7. **Earnings Per Share of Common Stock**—Fully diluted earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the periods, plus those common shares which would have been issued if conversion of all preferred stock had taken place at the beginning of each period. Common stock issuances based on profit performance and common stock options, the exercise of which would result in dilution of earnings per share, have been considered as the equivalent of common stock.

Primary earnings per share are based on those shares included in the fully diluted earnings per share calculations, except that conversion of preferred stock has not been assumed. Net earnings for this computation were reduced by preferred stock dividend requirements.

Auditors' Report

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
720 Olive Street
St. Louis, Missouri

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERCO INCORPORATED:

We have examined the consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of February 28, 1973 and November 30, 1972 and the related statements of earnings and changes in financial position for the three months ended February 28, 1973 and February 29, 1972 and the twelve months ended February 28, 1973 and the statement of stockholders' equity for the three months ended February 28, 1973. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of INTERCO INCORPORATED and subsidiaries at February 28, 1973 and November 30, 1972 and the results of their operations and changes in their financial position and stockholders' equity for the periods indicated above, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

April 9, 1973

Five Year Consolidated Financial Review

	FISCAL YEARS ENDED				
			November 30		
	February 28 1973	**February 29 1972**	**1970**	**1969**	**1968**
FOR THE YEAR	(Dollars in Thousands)				
Net sales	**$1,001,817**	$902,734	$807,081	$736,125	$695,030
Earnings before income taxes (1)	**75,822**	65,171	56,627	52,033	49,004
As a percent of sales	**7.6%**	7.2%	7.0%	7.1%	7.1%
Net earnings	**39,122**	34,068	28,480	26,598	26,252
As a percent of sales	**3.9%**	3.8%	3.5%	3.6%	3.8%
Cash dividends paid:					
On common stock	**12,140**	10,754	8,156	7,236	6,458
On preferred stock	**988**	1,452	2,498	2,429	2,087
AT YEAR END					
Working capital	**278,363**	260,723	214,788	214,435	208,792
Property, plant and equipment, net	**86,656**	81,813	82,416	73,520	69,874
Capital expenditures	**15,243**	13,668	16,197	16,085	13,586
Total assets	**485,607**	460,657	427,037	385,875	365,829
Long-term debt	**60,778**	67,800	71,188	73,582	77,436
Stockholders' equity	**310,328**	280,914	232,473	216,155	202,581
PER SHARE OF COMMON STOCK			(In Dollars)		
Fully diluted earnings (2)	**3.69**	3.26	2.85	2.70	2.66
Dividends	**1.25**	1.21	1.10	1.00	.90

(1) Prior years' Earnings Before Income Taxes reflect the reclassification of state and city income taxes to provision for income taxes.
(2) Refer to Earnings per Share of Common Stock in Notes to Consolidated Financial Statements.
(3) The above figures have been restated to include pooled companies for years prior to their acquisition.
(4) Fiscal 1973 and 1972 reflect the change in fiscal year from November 30 to the last day in February.

Directors

DAVID R. CALHOUN
Chairman of the Board,
First Union, Incorporated and
St. Louis Union Trust Company

MAURICE R. CHAMBERS
Chairman of the Board and
Chief Executive Officer of the Company

STANLEY M. COHEN
President,
Central Hardware Company

WEBSTER L. COWDEN
Chairman of the Board,
Cowden Manufacturing Company

WILLIAM L. EDWARDS, JR.
Senior Executive Vice President and
Chief Administrative Officer of the Company

JOSEPH FOX
President,
International Retail Shoe Company

RICHARD P. HAMILTON
President,
The Florsheim Shoe Company

PHILIP N. HIRSCH
President,
P. N. Hirsch & Company

J. LEE JOHNSON
Retired

EDWIN S. JONES
Chairman of the Board,
First National Bank in St. Louis and
President, First Union, Incorporated

SAMUEL S. KAUFMAN
Chairman of the Board,
Campus Sweater & Sportswear Company

DONALD E. LASATER
Chairman of the Board,
Mercantile Bancorporation Inc. and
Mercantile Trust Company National Association

NORFLEET H. RAND
Vice Chairman of the Board and
Treasurer of the Company

JOHN K. RIEDY
President and Chief Operating Officer
of the Company

EDWARD J. RILEY
President,
International Shoe Company

HERBERT SHAINBERG
Chairman of the Board,
Sam Shainberg Company

Officers

MAURICE R. CHAMBERS, Chairman of the Board and Chief Executive Officer

JOHN K. RIEDY, President and Chief Operating Officer

NORFLEET H. RAND, Vice Chairman of the Board and Treasurer

WILLIAM L. EDWARDS, JR., Senior Executive Vice President and Chief Administrative Officer

EDWARD J. RILEY, Vice President

JOSEPH FOX, Vice President

PHILIP N. HIRSCH, Vice President

WEBSTER L. COWDEN, Vice President

STANLEY M. COHEN, Vice President

HERBERT SHAINBERG, Vice President

SAMUEL S. KAUFMAN, Vice President

RICHARD P. HAMILTON, Vice President

RONALD L. AYLWARD, Vice President and General Counsel

DUANE A. PATTERSON, Secretary

DUANE L. STARR, Controller and Assistant Treasurer

EDWARD P. GRACE, Assistant Treasurer

STANLEY F. HUCK, Assistant Controller

Executive Offices

Ten Broadway
St. Louis, Missouri 63102

Transfer Agents

Manufacturers Hanover Trust Company
New York, New York

Mercantile Trust Company National Association
St. Louis, Missouri

Registrars

Morgan Guaranty Trust Company
New York, New York

St. Louis Union Trust Company
St. Louis, Missouri

INTERCO
INCORPORATED

APPAREL Manufacturing

GENERAL RETAIL Merchandising

FOOTWEAR Manufacturing
and Retailing